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Carrefour abandons Russian Food Retail market

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Report Highlights:

The French international hypermarket chain, Carrefour, has decided to close its business in Russia after only four months of operation due to inadequate growth and acquisition opportunities. Lenta, O'Key, Aushan and X5 Retail Group are considered likely candidates to buy the Carrefour stores. Carrefour's exit from Russia will undoubtedly affect other international retailers contemplating market entry.

General Information:

The French international hypermarket chain, Carrefour, came to the Russian market in 2009 following other foreign-owned retailer such as the German-owned hypermarket chain Metro Cash & Carry which opened its first store in Russia in 2001, followed by French rival Aushan in 2002. Carrefour opened its first store in Russia in June 2009 in Moscow, a second store opened in

Krasnodar in September, and its third outlet was scheduled to begin operations in Lipetsk before the end of the year. The company recently signed a lease to open its fourth location in the River Mall in Moscow, where it intended to launch a store in 2011. Currently Carrefour operates 15,600 stores in 35 countries worldwide. Carrefour is the largest hypermarket chain in the world in terms of size, and the second largest retail group in the world in terms of revenue and third largest in profit after Wal-Mart and Tesco. Carrefour operates mainly in Europe, China, Colombia, Brazil, Argentina and in the Dominican Republic, but also has shops in North Africa and other parts of Asia. Carrefour means "crossroads" in French. The company's net sales in 2008 were \$127.45 billion, while net profit was \$1.9 billion.

On October 15, 2009, after only four months in the Russian market, Carrefour announced plans to sell off its holdings in Russia. The company cited several factors behind its decision such as inadequate growth and acquisition opportunities in the short- and medium-term that would have enabled the company to become the leading retailer in Russia.

Carrefour reported a 2.9 percent drop in group sales for the third quarter of 2009, with the steepest sales decline coming from its core European base. Sales in France declined 3.4 percent and turnover in the rest of Europe was down 6.6 percent. The only regions to report positive growth were Asia and Latin America, with sales increases of 5.1 and 5.3 percent, respectively.

But there are likely to be other factors at play in Carrefour's decision to pull out of such a potentially lucrative market. Industry observers believe the main reason is that Carrefour failed to acquire the grocery chain Seventh Continent (which currently has 140 stores in Russia) after negotiations were suspended earlier this year.

Another factor in Carrefour's exit from Russia could be that despite the strong growth potential in the Russian food retail market, major obstacles to market entry exist, including a complicated legislative framework, government bureaucracy, and red tape. Corruption also persists at both regional and local levels, further hindering business development.

Carrefour Chief Financial Officer Pierre Bouchut said that the company has no current plans to abandon any other markets, but that it is "permanently reassessing the situation of all business units" to ensure that they are able to "secure a profitable leadership position over time."

Carrefour has announced that their three stores currently operating in Russia will remain open until the company finds a buyer. Press reports indicate that Carrefour is making proposals to various Russian retailers to find a franchising partner, which it has done in Africa, the Middle East, and Japan. The company would offer domestic retailers to develop a chain of stores under the brand name Carrefour. However, most retail players are satisfied with their own brands. Finding a franchising partner is attractive to Carrefour because it gives them the opportunity to return to the market in the future. Currently only the Victoria Retail Group (more than 210 stores in Russia) has shown interest in franchising under the Carrefour umbrella.

Lenta, O'Key, Aushan and X5 Retail Group are considered likely candidates to buy the Carrefour stores.

Carrefour's exit from Russia will undoubtedly affect other international retailers contemplating market entry. Wal-Mart may now be wary of going ahead with its development in the country. On the other hand, it may see this as an opportunity to pick up assets on the cheap and with one less foreign competitor. Wal-Mart has long studied the Russian market and years of careful planning illustrate that it is reluctant to make a quick move. In the meantime, while Russia undoubtedly remains a risky market, the long-term gains from successful market entry could be abundant. Indeed, Carrefour may come back to this country after necessary market reforms and when the country becomes more open to international retailers.